

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Portland	County Ionia
Fiscal Year End June 30, 2006	Opinion Date September 1, 2006	Date Audit Report Submitted to State November 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	N/A	
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	Zip 48823
		License Number 1101024055	

**City of Portland  
Ionia County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2006**

City of Portland

Ionia County, Michigan

June 30, 2006

CITY COUNCIL AND ADMINISTRATION

Mr. James Barnes	Mayor
Mr. Eric Alderman	Mayor Pro-Tem
Mr. Patrick Duff	Council member
Mr. Roger Habegger	Council member
Ms. Kathy Parsons	Council member
Mr. Thomas Dempsey	City Manager
Ms. Yvonne Miller	City Clerk
Ms. Brenda Schrauben	Finance Director/ Treasurer
Ms. Lisa Pung	City Assessor
Mr. William Davis	City Attorney

## TABLE OF CONTENTS

June 30, 2006

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9-10
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	11-12
Statement of Cash Flows - Proprietary Funds	13-16
Statement of Net Assets - Fiduciary Funds	17
Notes to Financial Statements	18-38
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	39-41
Budgetary Comparison Schedule - City Income Tax Fund	42
Budgetary Comparison Schedule - Local Street Fund	43
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	44-45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	46-47
COMPONENT UNIT FUND	
DOWNTOWN DEVELOPMENT AUTHORITY	
Balance Sheet	48
Reconciliation of the Balance Sheet to the Statement of Net Assets	49
Statement of Revenues, Expenditures, and Changes in Fund Balance	50
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	51
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	52

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Portland  
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Portland as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Portland as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of the City of Portland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 1, 2006

## City of Portland

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The following is a discussion and analysis of City of Portland's (the City's) financial performance and position, providing an overview of the activities for the year ended June 30, 2006. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

#### Government-wide:

- Total net assets were \$26,528,333 (excluding component units).
- Governmental activities net assets were \$12,746,047.
- Business-type activity net assets were \$13,782,286.
- Component Unit net assets were \$988,393.

#### Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,672,689 with \$455,547 being reserved, designated, or otherwise earmarked for specific purposes (cemetery perpetual care, debt service).
- The General Fund realized \$146,139 more in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations also expended \$265,265 less than appropriated.
- Overall, the General Fund balance increased by \$190,837 to \$616,373 with \$316,373 being undesignated and available for general purposes.

#### Capital and Long-term Debt Activities:

- The total long-term debt for the primary government was \$2,055,249, a decrease of \$288,084 from the prior year.
- The City remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government were \$3,218,310 and included a new water and sewer lines and a sewer lift station to serve the MDOT rest area on I-96, replacement of the water and sewer systems in Charlotte Highway, street improvements to Charlotte, Cutler, and Rowe, asphalt overlays on Washington, Bridge and Water Streets, repairs to the Quarterline Street storm sewer and work from improvements to Canal, Donna, and Bethel Streets that was completed after the last audit period. We included the acquisition of the Marsh and Huhn Properties behind the Electric Plant. We also included the City's portion of the new roof on the PAMA building, renovation of the Grand Dam arts Center building, Repairs to the spillway of the Dam, new playground equipment at Alton Park, new computers and a folder inserter machine at City Hall and easements and design work for the downtown Boardwalk.
- The City also added capital projects from prior years (additions to the river trail) that were not included on prior capital asset schedules.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

#### Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

purpose is to assist in answering the question, is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2005/2006. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, health and welfare (ambulance), economic development, city improvements, street improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Electric Light and Power System, the Sewage Disposal System and Water System Fund and are examples of these activities.
- **Discretely Presented Component Units** - Discretely Presented Component units are legally separate organizations for which the City Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. One organization is included as a discretely presented component unit: the Downtown Development Authority.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**Fund Financial Statements (Reporting the City's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Portland include the General Fund, the City Income Tax Fund, the Local Street Fund, the Electric Light and Power System Fund, the Sewage Disposal System Fund and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. income tax, major street, local street, ambulance and recreation funds), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the Boardwalk Project fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest, e.g. the special assessments fund).
- **Proprietary Funds** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer Disposal System Fund. *Internal Service funds* report activities that provide supplies or service to the City's other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Net Assets on page 17. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 18 of this report.

**Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

As previously stated, City of Portland combined net assets were \$26,528,333 at the end of this fiscal year's operations. The net assets of the governmental activities were \$12,746,047; the business type activities were \$13,782,286.

**Net Assets as of June 30, 2005 and 2006**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Current and Other Assets	\$ 2,156,794	\$ 2,378,647	\$ 4,389,493	\$ 4,687,966	\$ 6,546,287	\$ 7,066,613
Capital Assets	8,420,065	10,938,322	9,338,441	11,537,563	17,758,506	22,475,885
<b>Total Assets</b>	<b>\$ 10,576,859</b>	<b>\$ 13,316,969</b>	<b>\$ 13,727,934</b>	<b>\$ 16,225,529</b>	<b>\$ 24,304,793</b>	<b>\$ 29,542,498</b>
Current Liabilities	\$ 478,623	\$ 472,223	\$ 486,089	\$ 563,279	\$ 964,712	\$ 1,035,502
Noncurrent Liabilities	132,992	98,699	2,128,502	1,879,964	2,261,494	1,978,663
<b>Total Liabilities</b>	<b>\$ 611,615</b>	<b>\$ 570,922</b>	<b>\$ 2,614,591</b>	<b>\$ 2,443,243</b>	<b>\$ 3,226,206</b>	<b>\$ 3,014,165</b>
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 8,280,624	\$ 10,852,569	\$ 7,193,569	\$ 9,622,691	\$ 15,474,193	\$ 20,475,260
Restricted	845,651	862,886	238,994	261,529	1,084,645	1,124,415
Unrestricted	838,969	1,030,592	3,680,780	3,898,066	4,519,749	4,928,658
<b>Total Net Assets</b>	<b>\$ 9,965,244</b>	<b>\$ 12,746,047</b>	<b>\$ 11,113,343</b>	<b>\$ 13,782,286</b>	<b>\$ 21,078,587</b>	<b>\$ 26,528,333</b>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

**Changes in Net Assets for the Fiscal Year Ending June 30, 2005 and 2006**

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 1,210,825	\$ 1,189,812	\$ 4,255,363	\$ 4,717,284	\$ 5,466,188	\$ 5,907,096
Grants and Contributions	346,849	496,339	181,082	1,732,434	527,931	2,228,773
General Revenues						
Property Taxes	945,303	982,917	-	-	945,303	982,917
State Shared Revenue	456,521	450,576	-	-	456,521	450,576
City Income Taxes	684,603	686,135	-	-	684,603	686,135
Investment Earnings	49,804	84,073	32,731	77,642	82,535	161,715
Miscellaneous	41,104	38,090	40,241	252,306	81,345	290,396
Transfers	( 194,488 )	42,981	194,488	( 42,981 )	-0-	-0-
<b>Total Revenues</b>	<b>3,540,521</b>	<b>3,970,923</b>	<b>4,703,905</b>	<b>6,736,685</b>	<b>8,244,426</b>	<b>10,707,608</b>

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**Changes in Net Assets for the Fiscal Year Ending June 30, 2005 and 2006 - continued**

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>Expenses</b>						
General Government	\$ 859,071	\$ 999,883	\$ -	\$ -	\$ 859,071	\$ 999,883
Public Safety	842,049	1,061,054	-	-	842,049	1,061,054
Public Works	632,726	651,566	-	-	632,726	651,566
Health and Welfare	427,283	465,054	-	-	427,283	465,054
Community and Economic Develop.	272,547	54,505	-	-	272,547	54,505
Recreation and Cultural	286,341	319,026	-	-	286,341	319,026
Other	20,193	3,954	3,600,051	4,099,803	3,620,244	4,103,757
<b>Total Expenses</b>	<b>3,340,210</b>	<b>3,555,042</b>	<b>3,600,051</b>	<b>4,099,803</b>	<b>6,940,261</b>	<b>7,654,845</b>
<b>Increase in Net Assets</b>	<b>200,311</b>	<b>415,881</b>	<b>1,103,854</b>	<b>2,636,882</b>	<b>1,304,165</b>	<b>3,052,763</b>
Restated Net Assets - Beginning	9,703,471	12,330,166	10,009,489	11,145,404	19,712,960	23,475,570
Prior Period Adjustment	61,462	-	-	-	61,462	-0-
<b>Net Assets - Ending</b>	<b>\$ 9,965,244</b>	<b>\$ 12,746,047</b>	<b>\$ 11,113,343</b>	<b>\$ 13,782,286</b>	<b>\$ 21,078,587</b>	<b>\$ 26,528,333</b>

**Governmental Activities:**

The result of 2005/2006 governmental activity was an increase of \$415,881 in net assets to \$12,746,047. Of the total governmental activities' net assets, \$10,852,569 is invested in capital assets less related debt, \$862,886 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$1,030,592 is listed as unrestricted, having no legal commitment.

**Revenues:**

The three largest revenue categories were charges for services at 30.0%, property taxes at 24.7%, and income taxes at 17.3%. Charges for services, which reimburse the City for specific activities, are the largest source of governmental activity revenue. Examples include items such as ambulance fees, township fire fees, recreation fees and contributions, administrative charges, permits and motor pool equipment rental. The City levied a property tax millage for the year ended June 30, 2006, for general government operations at 12.7522 mills, which is not assigned to any particular activity. Grants and contributions include capital grants (e.g. MDOT Rest area improvements, the \$100,000 Cool City Grant and the Michigan Council for Arts Cultural Affairs Grant and the Arts Council's in-kind match) and State operating assistance (e.g. State shared revenues).

**Expenses:**

Public Safety is the largest area, expending approximately 30% of the governmental activities total on law enforcement, fire protection and code enforcement. General government is the second largest governmental activity, expending approximately 28% of the governmental activities total and includes general government departments (e.g. council, community promotions, city manager, elections, general administration, assessor, city hall maintenance, and cemetery operations). Public Works expended approximately 18% of the governmental activities total and would be higher if capital outlay charged to this function in the funds were not shown as capital assets in the government-wide financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**Business-type Activities:**

Net assets in business-type activities were increased by \$2,636,882 during fiscal year 2005/2006. Of the business-type activities' net assets, \$9,622,691 is invested in capital assets net of related debt, \$261,529 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$3,898,066 is listed as unrestricted, having no legal commitment.

**FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS**

As the City completed 2005/2006, its governmental funds reported *combined* fund balances of \$1,672,689. This is a net increase of \$350,951. The net changes are summarized in the following chart:

	<b>General Fund</b>	<b>City Income Tax</b>	<b>Local Street</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Fund Balance 06/30/05</b>	\$ 465,939	\$ 293,244	\$ 147,359	\$ 455,599	\$ 1,362,141
<b>Prior Period Adjustment</b>	\$ ( 40,403 )	\$ -	\$ -	\$ -	\$ ( 40,403 )
<b>Fund Balance 06/30/06</b>	\$ 616,373	\$ 516,422	\$ 91,903	\$ 447,991	\$ 1,672,689
<b>Net Change</b>	\$ 190,837	\$ 223,178	\$ ( 55,456 )	\$ ( 7,608 )	\$ 350,951

**General Fund:**

The General Fund is the chief operating fund of the City. Unless otherwise required by statute, contractual agreement or Board policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2006, the General Fund reported a fund balance of \$616,373. This amount is a net increase of \$150,434 from the fund balance of \$465,939 reported as of June 30, 2005. The 2005/2006 original budget had called for a \$194,567 use of fund balance.

The General Fund 2005/2006 revenues exceeded 2005/2006 expenditures by \$190,837 due to reduced spending (personnel related expenses in the police department and parks department; unexpended dollars budgeted for repairs to the PAMA building) and increased revenues (more revenue from townships for fire protection, higher interest earnings on deposits, and additional reimbursements from ambulance collections). It should be noted that the General Fund also supports the operations of other funds including the Recreation Fund, Boardwalk Project Fund, and Arts and Cultural Improvement Fund, which received \$20,000, \$25,000, and \$14,979, respectively, in support from the General Fund.

**General Fund Budgetary Highlights:**

The City of Portland's budget is a dynamic document. Although adopted in May (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$2,237,051, \$146,139 above the final amended budget.

The \$146,139 excess in budgeted General Fund Revenue was due to increased interest earning on deposits (up \$37,000) higher than anticipated revenue reimbursements from the townships for fire protection (up \$63,000) and from ambulance services within the City and a refund on workers compensation premium (up

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

\$40,000). These factors helped General Fund revenue exceed the budgeted amount despite the fact that State sales tax payments were \$7,000 less than budgeted.

The City's original General Fund expenditures and other financing uses budget was increased by \$26,000 during 2005/2006. The increase can be attributed to decreases in General Government of \$17,000 and increases in Public Safety expenditures of \$3,000 and budgeted transfers to other funds of \$40,000.

Actual City expenditures and other financing uses for 2005/2006 were \$265,265 below the amended budget. The additions to the original budget were offset by reduced spending and deferral of some planned capital purchases because of financial uncertainty associated with State cuts to revenue sharing and the desire to increase fund balance for local match on future grant projects. The City also experienced some savings because certain expenses came in lower than anticipated and personnel levels were below the amounts budgets (e.g. police, park & rec) or volunteers were available to reduce so that less money was spent on seasonal part-timers (e.g. GM volunteers).

Overall general fund expenditures were down due to several reasons including:

- \$31,513 less than planned expenditures in the Parks and Recreation Department.
- \$34,574 less than planned expenditures in the Police Department.
- \$34,109 less than planned expenditures in the Fire Department.
- \$11,098 less than planned expenditures in the Code Enforcement Department.
- \$31,212 less than planned expenditures in the Cemetery Department.
- \$34,034 less than planned expenditures for General Administration.
- \$9,137 less than planned expenditures for City Hall Building and Grounds.
- \$5,932 less than planned expenditures for Elections.
- \$8,732 less than planned expenditures for Assessing Department.
- \$12,593 less than planned expenditures for the City Manager Department
- \$33,188 less than planned expenditures for Community Promotions.
- \$5,631 less than planned expenditures for Council Boards and Commissions.

**City Income Tax Fund**

As of June 30, 2006, the City Income Tax Fund reported a fund balance of \$516,422, an increase of \$223,178 from the prior year. The total fund balance is undesignated/unreserved. While the City finance statements show these funds as undesignated, the City has used the income tax funds exclusively for the improvement of streets, sidewalks, curb, gutter, street lighting, parking areas, associated utilities and their appurtenances.

**Local Street Fund**

As of June 30, 2006, the Local Street Fund reported a fund balance \$91,903, which is a decrease of \$55,456 from the prior year. The entire balance of \$91,903 is undesignated/unreserved.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**Business-type Activities Funds**

As the City completed 2005/2006, its business-type activities funds reported *combined* net assets of \$13,782,286. This is a net increase of \$2,668,943 resulting from current year operations. The net changes are summarized in the following chart.

	<b>Electric Light and Power System Fund</b>	<b>Sewage Disposal System Fund</b>	<b>Water System Fund</b>	<b>Nonmajor Enterprise Fund</b>	<b>Total</b>
<b>Net Assets 06/30/05</b>	\$ 6,694,318	\$ 1,463,850	\$ 2,955,105	\$ 70	\$ 11,113,343
<b>Prior Period Adjustment</b>	\$ -	\$ -	\$ 32,061	\$ -	\$ 32,061
<b>Net Assets 06/30/06</b>	\$ 7,345,201	\$ 2,466,034	\$ 3,969,546	\$ 1,505	\$ 13,782,286
<b>Net Change</b>	\$ 650,883	\$ 1,002,184	\$ 982,380	\$ 1,435	\$ 2,636,882

**Electric Light and Power System Fund:**

As of June 30, 2006, the Electric Light and Power System Fund reported net assets of \$7,345,201, an increase of \$650,883 from the prior year. Of the entire net assets, \$5,530,049 is invested in capital assets, \$70,000 is reported as being reserved due to the requirements of Section 12.9 of the City Charter, \$153,592 is restricted for debt service, and \$1,591,560 is unrestricted.

**Sewage Disposal System Fund:**

As of June 30, 2006, the Sewer Fund reported net assets of \$2,466,034, an increase of \$1,002,184 from the prior year. Of the entire net assets, \$1,726,014 is invested in capital assets, net of related debt, \$37,937 is restricted for debt service, and \$702,083 is unrestricted.

**Water System Fund:**

As of June 30, 2006, the Water System Fund reported net assets of \$3,969,546, a net increase of \$1,014,441 from the prior year. Of the entire net assets, \$2,366,628 is invested in capital assets, net of related debt and \$1,602,918 is unrestricted.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of Fiscal Year 2005/2006, the City had invested \$22,475,885, and \$2,674,013 for the component units, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note G of the Financial Statements. Net Book value of capital assets at June 30, 2006 was as follows:

	Governmental Activities	Business-type Activities	Component Unit DDA	Total
Land	\$ 1,075,920	\$ -	\$ -	\$ 1,075,920
Construction in progress	220,389	-	29,816	250,205
Buildings, net	314,999	-	2,210,850	2,525,849
Vehicles and equipment, net	657,295	-	-	657,295
Electric system, net	-	5,965,049	-	5,965,049
Sewer system, net	-	1,916,014	-	1,916,014
Water system, net	-	3,656,500	-	3,656,500
Infrastructure Streets & Bridges, net	8,669,719	-	433,347	9,103,066
Capital assets, net	<u>\$ 10,938,322</u>	<u>\$11,537,563</u>	<u>\$ 2,674,013</u>	<u>\$ 25,149,898</u>

Long-term Debt - As of June 30, 2006, the City had \$2,055,249 in long-term debt outstanding for the primary government. This level of net obligation is \$288,084 less than the obligation recorded as of June 30, 2005.

**Outstanding Debt as of June 30, 2006:**

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>
<b>Primary Government</b>				
Governmental Activities				
Special Assessment Bonds	\$ 65,000	\$ -	\$ 5,000	\$ 60,000
Capital Leases Payable	24,829	-	16,029	8,800
Notes Payable	49,612	-	32,659	16,953
Compensated Absences	59,020	-	4,396	54,624
Business-type Activities				
Elec. 1994 Rev. Bonds	500,000	-	100,000	400,000
2002 Note Payable	95,000	-	60,000	35,000
Sewer 1995 Rev. Bonds	205,000	-	15,000	190,000
Water 2004 DWRP Bonds	<u>1,344,872</u>	<u>-</u>	<u>55,000</u>	<u>1,289,872</u>
<b>Total Primary Government</b>	<b>2,343,333</b>	<b>-0-</b>	<b>288,084</b>	<b>2,055,249</b>
<b>Component Unit</b>				
General Obligation Bonds	<u>1,895,000</u>	<u>-</u>	<u>125,000</u>	<u>1,770,000</u>
<b>Total Reporting Entity</b>	<b><u>\$ 4,238,333</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 413,084</u></b>	<b><u>\$ 3,825,249</u></b>

A more detailed discussion of the City's long-term debt obligations is presented in Note H to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

**CITY OF PORTLAND GOVERNMENT ECONOMIC OUTLOOK:**

- State revenue sharing is projected to remain flat for fiscal year 2006-2007 and may face cuts due to state budget problems.
- Project and construction costs continue to rise faster than the rate of inflation (5 to 8% vs. 3.3%).
- Investment earnings have increased due to higher fund balances on deposit and higher market interest rates.
- Health and dental insurance premiums continue to rise much faster than the rate of inflation (14-15% vs. 3.3%).
- Retirement costs are increasing due to increased longevity of retirees, pension benefit adjustments for inflation and poor stock market performance over the last several years.
- Fuel and other utility costs are rising faster than the rate of inflation. Fuel and natural gas prices have moderated this fall but the market remains extremely volatile.
- Hazard/Liability Insurance costs continue to rise faster than the rate of inflation.

These factors were considered in adopting the Budget for 2006/2007. A usage of \$143,330 of the City's fund balance was included to balance the General Fund Budget, although it is estimated that the deficit will be less as the taxable value of property in the City increased by \$4,843,220 (approximately 5.82%) with more than ½ of the increase being due to an inflation adjustment to existing tax base and remainder due to new construction. Approximately 95% of the new growth is residential with a new 16 unit apartment building at Parkers Landing, new homes on Lyons, Grape, and Virginia Street and new condominiums at Rivers Edge, Cherry Hill, and Cherry Creek Estates. Commercial construction was mostly renovation of existing facilities and replacement or expansion of personal property.

The increase in tax base and continued efforts to monitor spending and increase efficiencies make prospects for balancing the City's budget for 2006/2007 excellent.

**CONTACTING THE CITY**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Portland's Treasurer's Office at (517) 647-2933.



## **BASIC FINANCIAL STATEMENTS**

City of Portland

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,929,228	\$ 2,905,682	\$ 4,834,910	\$ 97,107
Receivables	231,236	810,604	1,041,840	-
Due from other governmental units	218,183	-	218,183	-
Inventories	-	424,726	424,726	-
Total current assets	2,378,647	4,141,012	6,519,659	97,107
Noncurrent assets				
Cash and cash equivalents - restricted	-	546,954	546,954	22,744
Capital assets not being depreciated	1,296,309	1,772,785	3,069,094	29,816
Capital assets being depreciated, net	9,642,013	9,764,778	19,406,791	2,644,197
Total noncurrent assets	10,938,322	12,084,517	23,022,839	2,696,757
TOTAL ASSETS	13,316,969	16,225,529	29,542,498	2,793,864
LIABILITIES				
Current liabilities				
Accounts payable	322,340	253,611	575,951	-
Accrued liabilities	108,205	97,662	205,867	20,471
Due to other governmental units	-	-	-0-	15,000
Customer deposits	-	7,006	7,006	-
Current portion of compensated absences	10,925	-	10,925	-
Current portion of long-term debt	30,753	205,000	235,753	130,000
Total current liabilities	472,223	563,279	1,035,502	165,471
Noncurrent liabilities				
Customer deposits payable from restricted assets	-	170,092	170,092	-
Noncurrent portion of compensated absences	43,699	-	43,699	-
Noncurrent portion of long-term debt	55,000	1,709,872	1,764,872	1,640,000
Total noncurrent liabilities	98,699	1,879,964	1,978,663	1,640,000
TOTAL LIABILITIES	570,922	2,443,243	3,014,165	1,805,471
NET ASSETS				
Invested in capital assets, net of related debt	10,852,569	9,622,691	20,475,260	904,013
Restricted for				
Utilities	-	70,000	70,000	-
Capital improvement	5,405	-	5,405	-
Debt service	20,510	191,529	212,039	-
Other purposes	836,971	-	836,971	-
Unrestricted	1,030,592	3,898,066	4,928,658	84,380
TOTAL NET ASSETS	\$ 12,746,047	\$ 13,782,286	\$ 26,528,333	\$ 988,393

See accompanying notes to financial statements.

City of Portland  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Units
					Governmental Activities	Business-type Activities		
Primary government								
Governmental activities								
General government	\$ 999,883	\$ 522,994	\$ 2,107	\$ -	\$ (474,782)	\$ -	\$ (474,782)	\$ -
Public safety	1,061,054	195,945	8,570	-	(856,539)	-	(856,539)	-
Public works	651,566	3,551	297,046	2,221	(348,748)	-	(348,748)	-
Health and welfare	465,054	362,792	-	-	(102,262)	-	(102,262)	-
Community and economic development	54,505	14,568	-	-	(39,937)	-	(39,937)	-
Recreation and cultural	319,026	89,962	19,175	167,220	(42,669)	-	(42,669)	-
Interest on long-term debt	3,954	-	-	-	(3,954)	-	(3,954)	-
Total governmental activities	3,555,042	1,189,812	326,898	169,441	(1,868,891)	-0-	(1,868,891)	-0-
Business-type activities								
Electric, Light, and Power System	3,001,778	3,376,792	-	6,384	-	381,398	381,398	-
Sewage Disposal System	542,043	579,938	-	972,561	-	1,010,456	1,010,456	-
Water System	467,564	670,843	-	753,489	-	956,768	956,768	-
Refuse	88,418	89,711	-	-	-	1,293	1,293	-
Total business-type activities	4,099,803	4,717,284	-0-	1,732,434	-0-	2,349,915	2,349,915	-0-
Total primary government	<u>\$ 7,654,845</u>	<u>\$ 5,907,096</u>	<u>\$ 326,898</u>	<u>\$ 1,901,875</u>	(1,868,891)	2,349,915	481,024	-0-
Component unit								
Downtown Development Authority	<u>\$ 340,280</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(340,280)
General revenues								
Property taxes					982,917	-	982,917	249,652
State shared revenue					450,576	-	450,576	-
City income taxes					686,135	-	686,135	-
Investment earnings					84,073	77,642	161,715	2,736
Miscellaneous					38,090	252,306	290,396	8,450
Transfers					42,981	(42,981)	-0-	-
Total general revenues and transfers					2,284,772	286,967	2,571,739	260,838
Change in net assets					415,881	2,636,882	3,052,763	(79,442)
Restated net assets, beginning of the year					12,330,166	11,145,404	23,475,570	1,067,835
Net assets, end of the year					<u>\$ 12,746,047</u>	<u>\$ 13,782,286</u>	<u>\$ 26,528,333</u>	<u>\$ 988,393</u>

See accompanying notes to financial statements.

City of Portland  
GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2006

	General	City Income Tax	Local Street	Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 635,159	\$ 505,036	\$ 113,782	\$ 475,183
Receivables				
Taxes	1,133	123,238	-	-
Accounts	9,246	1,796	663	39,339
Special assessments	-	36,856	-	17,151
Due from other governmental units				
State	-	-	11,906	125,300
Local	80,977	-	-	-
Due from other funds	17,206	-	89,273	23,437
<b>TOTAL ASSETS</b>	<u>\$ 743,721</u>	<u>\$ 666,926</u>	<u>\$ 215,624</u>	<u>\$ 680,410</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 21,946	\$ 249	\$ 116,749	\$ 180,104
Accrued liabilities	73,402	1,435	3,144	21,040
Due to other funds	-	111,964	3,828	14,124
Deferred revenue	-	36,856	-	17,151
Advances from other funds	32,000	-	-	-
<b>TOTAL LIABILITIES</b>	127,348	150,504	123,721	232,419
<b>FUND BALANCES</b>				
Reserved for				
Perpetual care	-	-	-	134,358
Debt service	-	-	-	21,189
Unreserved				
Designated for capital projects	300,000	-	-	-
Undesignated, reported in				
General Fund	316,373	-	-	-
Capital Project Funds	-	-	-	112,790
Special Revenue Funds	-	516,422	91,903	179,654
<b>TOTAL FUND BALANCES</b>	<u>616,373</u>	<u>516,422</u>	<u>91,903</u>	<u>447,991</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 743,721</u>	<u>\$ 666,926</u>	<u>\$ 215,624</u>	<u>\$ 680,410</u>

See accompanying notes to financial statements.

Total  
Governmental  
Funds

---

\$ 1,729,160

124,371

51,044

54,007

137,206

80,977

129,916

---

\$ 2,306,681

\$ 319,048

99,021

129,916

54,007

32,000

---

633,992

134,358

21,189

300,000

316,373

112,790

787,979

---

1,672,689

\$ 2,306,681

City of Portland

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2006

**Total fund balance - governmental funds** \$ 1,672,689

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 15,468,671	
Accumulated depreciation is	<u>(4,530,349)</u>	
Capital assets, net		10,938,322

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	555,069	
Long-term obligations of Internal Service Funds included in total long-term liabilities below	16,953	
Accrued interest payable of Internal Service Funds included in total long-term liabilities below	282	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(350,219)</u>	222,085

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		54,007
------------------	--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Bonds, loans, and leases payable	85,753	
Accrued interest payable	679	
Compensated absences	<u>54,624</u>	(141,056)

**Net assets of governmental activities** \$ 12,746,047

See accompanying notes to financial statements.

City of Portland

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	General	City Income Tax	Local Street	Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 951,862	\$ 686,135	\$ 71,484	\$ -
Licenses and permits	17,394	-	-	-
Intergovernmental	454,785	-	80,515	418,289
Charges for services	512,688	-	-	452,754
Fines and forfeits	18,904	23,004	-	-
Interest and rents	57,020	11,617	2,619	8,425
Other	138,938	14,952	2,320	17,990
TOTAL REVENUES	2,151,591	735,708	156,938	897,458
EXPENDITURES				
Current				
General government	767,858	138,411	-	-
Public safety	909,053	-	-	-
Public works	41,793	-	582,394	355,593
Health and welfare	101,899	-	-	330,970
Community and economic development	10,817	-	-	41,278
Recreation and cultural	154,815	-	-	131,236
Capital outlay	-	-	-	58,726
Debt service	-	-	-	8,882
TOTAL EXPENDITURES	1,986,235	138,411	582,394	926,685
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	165,356	597,297	(425,456)	(29,227)
OTHER FINANCING SOURCES (USES)				
Transfers in	85,460	-	370,000	66,598
Transfers out	(59,979)	(374,119)	-	(44,979)
TOTAL OTHER FINANCING SOURCES (USES)	25,481	(374,119)	370,000	21,619
NET CHANGE IN FUND BALANCES	190,837	223,178	(55,456)	(7,608)
Fund balances, beginning of year	465,939	293,244	147,359	455,599
Prior period adjustment	(40,403)	-	-	-
Fund balances, end of year	<u>\$ 616,373</u>	<u>\$ 516,422</u>	<u>\$ 91,903</u>	<u>\$ 447,991</u>

See accompanying notes to financial statements.

Total  
Governmental  
Funds

---

\$ 1,709,481  
17,394  
953,589  
965,442  
41,908  
79,681  
174,200

3,941,695

906,269  
909,053  
979,780  
432,869  
52,095  
286,051  
58,726  
8,882

3,633,725

307,970

522,058  
(479,077)

42,981

350,951

1,362,141

(40,403)

\$ 1,672,689



City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

**Net change in fund balances - total governmental funds** **\$ 350,951**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 667,431	
Depreciation expense	<u>(582,379)</u>	
Excess of capital outlay over depreciation expense		85,052

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds	(116,414)	
Bond principal retirements of Internal Service Funds included in the total below	(32,659)	
Decrease in accrued interest payable of Internal Service Funds included in the total below	(542)	
Capital outlay of Internal Service Funds included in the total above	(25,325)	
Depreciation expense of Internal Service Funds included in the total above	<u>110,017</u>	
		(64,923)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in deferred revenue		(13,753)
--------------------------------	--	----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bonds, loans, and capital lease principal retirements		53,688
---	--	--------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	470	
Decrease in accrued compensated absences	<u>4,396</u>	
		<u>4,866</u>

<b>Change in net assets of governmental activities</b>		<b><u>\$ 415,881</u></b>
--	--	--------------------------

See accompanying notes to financial statements.

City of Portland

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2006

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 890,092	\$ 478,111	\$ 1,528,688
Accounts receivable	415,459	180,769	214,376
Inventories	375,596	-	49,130
Total current assets	1,681,147	658,880	1,792,194
Noncurrent assets			
Cash and cash equivalents - restricted	367,868	157,221	21,865
Advances to other funds	-	-	-
Capital assets not being depreciated	222,191	875,572	675,022
Capital assets being depreciated, net	5,742,858	1,040,442	2,981,478
Total noncurrent assets	6,332,917	2,073,235	3,678,365
<b>TOTAL ASSETS</b>	<b>8,014,064</b>	<b>2,732,115</b>	<b>5,470,559</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	53,105	38,069	155,151
Accrued liabilities	38,164	15,885	17,782
Accrued interest payable	11,417	978	13,436
Customer deposits	4,099	-	2,907
Current portion of long-term debt	135,000	15,000	55,000
Total current liabilities	241,785	69,932	244,276
Noncurrent liabilities			
Customer deposits payable from restricted assets	127,078	21,149	21,865
Bonds and notes payable	300,000	175,000	1,234,872
Total noncurrent liabilities	427,078	196,149	1,256,737
<b>TOTAL LIABILITIES</b>	<b>668,863</b>	<b>266,081</b>	<b>1,501,013</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,530,049	1,726,014	2,366,628
Restricted for utilities	70,000	-	-
Restricted for debt service	153,592	37,937	-
Unrestricted	1,591,560	702,083	1,602,918
<b>TOTAL NET ASSETS</b>	<b>\$ 7,345,201</b>	<b>\$ 2,466,034</b>	<b>\$ 3,969,546</b>

See accompanying notes to financial statements.

Activities		Governmental
Nonmajor		Activities
Enterprise		Internal
Fund (Refuse)	Total	Service
Fund		Fund
\$ 8,791	\$ 2,905,682	\$ 200,068
-	810,604	1,814
-	424,726	-
8,791	4,141,012	201,882
-	546,954	-
-	-0-	32,000
-	1,772,785	-
-	9,764,778	350,219
-0-	12,084,517	382,219
8,791	16,225,529	584,101
7,286	253,611	3,292
-	71,831	8,787
-	25,831	-
-	7,006	-
-	205,000	16,953
7,286	563,279	29,032
-	170,092	-
-	1,709,872	-
-0-	1,879,964	-0-
7,286	2,443,243	29,032
-	9,622,691	333,266
-	70,000	-
-	191,529	-
1,505	3,898,066	221,803
\$ 1,505	\$ 13,782,286	\$ 555,069

## City of Portland

## Proprietary Funds

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2006

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
OPERATING REVENUES			
Charges for services			
User charges	\$ 3,376,792	\$ 532,588	\$ 621,893
Tap fees	-	47,350	48,950
Other	235,317	4,810	12,037
TOTAL OPERATING REVENUES	3,612,109	584,748	682,880
OPERATING EXPENSES			
Salaries and wages	317,793	154,620	138,993
Fringe benefits	107,992	69,656	43,807
Contractual services	53,460	150,134	12,825
Supplies	75,553	7,275	32,312
Heat, light, and power	2,079,539	-	24,558
Communications	4,048	3,003	4,164
Insurance and bonds	10,763	3,891	1,894
Repairs and maintenance	19,790	8,543	15,874
Administrative services	61,942	44,460	44,460
Building and equipment rental	6,123	20,313	16,017
Other	31,182	1,233	2,377
Depreciation	205,643	60,432	85,682
TOTAL OPERATING EXPENSES	2,973,828	523,560	422,963
OPERATING INCOME (LOSS)	638,281	61,188	259,917
NONOPERATING REVENUES (EXPENSES)			
Interest earned	25,209	11,638	40,795
Intergovernmental			
Federal/State	6,384	972,561	753,489
Interest expense and fees	(27,950)	(18,483)	(44,601)
TOTAL NONOPERATING REVENUES (EXPENSES)	3,643	965,716	749,683
INCOME (LOSS) BEFORE TRANSFERS	641,924	1,026,904	1,009,600
TRANSFERS IN (OUT)			
Transfers in	44,979	-	-
Transfers out	(36,020)	(24,720)	(27,220)
TOTAL TRANSFERS IN (OUT)	8,959	(24,720)	(27,220)
CHANGE IN NET ASSETS	650,883	1,002,184	982,380
Net assets, beginning of year	6,694,318	1,463,850	2,955,105
Prior period adjustment	-	-	32,061
Net assets, end of year	\$ 7,345,201	\$ 2,466,034	\$ 3,969,546
See accompanying notes to financial statements.			

Activities Nonmajor Enterprise Fund (Refuse)	Total	Governmental Activities Internal Service Fund
\$ 89,711	\$ 4,620,984	\$ 270,427
-	96,300	-
142	252,306	467
89,853	4,969,590	270,894
-	611,406	71,252
-	221,455	32,037
88,418	304,837	2,003
-	115,140	57,635
-	2,104,097	7,456
-	11,215	1,327
-	16,548	29,225
-	44,207	55,720
-	150,862	28,392
-	42,453	-
-	34,792	23
-	351,757	110,017
88,418	4,008,769	395,087
1,435	960,821	(124,193)
-	77,642	9,566
-	1,732,434	-
-	(91,034)	(1,787)
-0-	1,719,042	7,779
1,435	2,679,863	(116,414)
-	44,979	-
-	(87,960)	-
-0-	(42,981)	-0-
1,435	2,636,882	(116,414)
70	11,113,343	671,483
-	32,061	-
\$ 1,505	\$ 13,782,286	\$ 555,069

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 3,660,542	\$ 512,827	\$ 616,119
Cash paid to suppliers	(2,441,222)	(226,506)	(92,632)
Cash paid for employee benefits	(421,385)	(224,357)	(166,334)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>797,935</b>	<b>61,964</b>	<b>357,153</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in	44,979	-	-
Transfers out	(36,020)	(24,720)	(27,220)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>8,959</b>	<b>(24,720)</b>	<b>(27,220)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments of borrowing	(160,000)	(15,000)	(55,000)
Payments on advances	-	-	-
Capital grants	6,384	972,561	753,489
Purchase of capital assets	(1,064,850)	(823,249)	(662,780)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,218,466)</b>	<b>134,312</b>	<b>35,709</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned	25,209	11,638	40,795
Interest expense and fees	(27,950)	(18,483)	(44,601)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(2,741)</b>	<b>(6,845)</b>	<b>(3,806)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(414,313)</b>	<b>164,711</b>	<b>361,836</b>
Cash and cash equivalents, beginning of year	1,672,273	470,621	1,188,717
Cash and cash equivalents, end of year	<u>\$ 1,257,960</u>	<u>\$ 635,332</u>	<u>\$ 1,550,553</u>

Activities		Governmental
Nonmajor		Activities
Enterprise		Internal
Fund (Refuse)	Total	Service
Fund		Fund
\$ 89,853	\$ 4,879,341	\$ 269,945
(81,252)	(2,841,612)	(187,447)
-	(812,076)	(101,631)
8,601	1,225,653	(19,133)
-	44,979	-
-	(87,960)	-
-0-	(42,981)	-0-
-	(230,000)	(32,659)
-	-0-	18,704
-	1,732,434	-
-	(2,550,879)	(25,325)
-0-	(1,048,445)	(39,280)
-	77,642	9,566
-	(91,034)	(1,787)
-0-	(13,392)	7,779
8,601	120,835	(50,634)
190	3,331,801	250,702
\$ 8,791	\$ 3,452,636	\$ 200,068

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2006

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 638,281	\$ 61,188	\$ 259,917
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	205,643	60,432	85,682
Decrease (Increase) in accounts receivable	3,979	(94,799)	(124,905)
Decrease in due from other governmental units	35,726	21,994	170,103
(Increase) in inventories	(35,095)	-	(8,771)
Increase (Decrease) in accounts payable	(63,727)	12,346	70,620
Increase (Decrease) in accrued liabilities	4,400	(81)	16,466
(Decrease) in due to other funds	-	-	(113,809)
Increase in customer deposits	8,728	884	1,850
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 \$ 797,935	 \$ 61,964	 \$ 357,153

See accompanying notes to financial statements.



<u>Activities</u>		<u>Governmental</u>
<u>Nonmajor</u>		<u>Activities</u>
<u>Enterprise</u>		<u>Internal</u>
<u>Fund (Refuse)</u>	<u>Total</u>	<u>Service</u>
		<u>Fund</u>
\$ 1,435	\$ 960,821	\$ (124,193)
-	351,757	110,017
-	(215,725)	(949)
-	227,823	-
-	(43,866)	-
7,166	26,405	(5,666)
-	20,785	1,658
-	(113,809)	-
-	11,462	-
<u>\$ 8,601</u>	<u>\$ 1,225,653</u>	<u>\$ (19,133)</u>

City of Portland

Fiduciary Fund

STATEMENT OF NET ASSETS

June 30, 2006

	Current Tax Collection
ASSETS	
Cash and cash equivalents	<u>\$ 2,593</u>
LIABILITIES	
Due to other governmental units	\$ 207
Due to individuals and agencies	833
Undistributed property taxes	<u>1,553</u>
TOTAL LIABILITIES	<u>\$ 2,593</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Portland is located in Ionia County, Michigan and has a population of approximately 4,000. The City of Portland operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has five (5) City Council members who are elected at large for overlapping two (2) or four (4) year terms. The Council elects two (2) of its members to serve as Mayor and Mayor Pro-Tem. The Council appoints the City Manager, City Clerk, Finance Director/Treasurer, and Assessor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Portland (primary government) and its component unit. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**2. Joint Venture**

The City participates in the following activity which is considered to be a joint venture in relation to the City, due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Portland Area Municipal Authority - The City is a member of the Portland Area Municipal Authority (PAMA), which is a joint venture between the City of Portland and the Townships of Portland and Danby. The City appoints two (2) of the five (5) members of the governing board. PAMA is charged with the responsibility of acquiring, financing, equipping, and improving an emergency services building for use by the participating municipalities.

The constituent municipalities are responsible for their share of the costs incurred by PAMA according to the following percentages:

City of Portland	40%
Portland Township	40
Danby Township	20

The financial activities of PAMA are accounted for and reported separately from the participating units. Separate audited financial statements for the year ended December 31, 2005, are available at PAMA's administrative offices. As of December 31, 2005, PAMA had a fund balance of \$1,935.

**3. Discretely Presented Component Unit**

The component unit is reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for this entity or the nature and significance of the relationship between the entity and the City is such that exclusion of the entity would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component unit:

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Discretely Presented Component Unit - continued

Downtown Development Authority - A majority of the members of the governing board of the Downtown Development Authority are appointed by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The City Income Tax Fund is used to account for the revenue from income tax collection. The City income tax was approved by voters for the purpose of funding street improvements.
- c. The Local Street Fund is used to account for financial resources that are used for repairs and maintenance of the City's streets.
- d. The Electric Light and Power System Fund is used to account for the operations required to provide electric services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Sewage Disposal System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Presentation - continued

- f. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. On the council meeting date nearest to the third Monday in April, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second regular council meeting in May, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Fund; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and accounts receivable for charges for services provided to local governmental units.

10. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

11. Property Tax

The City of Portland bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**11. Property Tax - continued**

Property taxes are levied by the City of Portland on July 1 and December 1 and are payable without penalty through September 30 and February 14, respectively. The July 1 levy is composed of the City's millage, assessments, and school taxes. The December 1 levy is composed of county and school taxes. All real property taxes not paid to the City by March 1 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to 15 mills (\$15 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2006, the City levied 13.7522 mills per \$1,000 of taxable valuation for general governmental services, which includes 1.000 mills for local streets. The total taxable value for the 2005 levy for property within the City was \$83,234,230.

**12. Income Tax Revenues**

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

**13. Inventories**

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventories in the Enterprise Funds consist of Electric, Light and Power and Water System supplies which are stated at cost on a first-in/first-out basis.

**14. Accrued Compensated Absences**

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days up to the equivalent of 10 days of vacation. Employees are not paid for accumulated sick leave.

For governmental funds, the cost of accumulated vacation along with the related payroll taxes expected to be paid in the next 60 days is recorded as a fund liability, and amounts expected to be paid after 60 days are recorded only in the government-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when incurred.

**15. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Motor Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED****16. Capital Assets**

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	30 - 40 years
Electric, Water and Sewer systems	25 - 50 years
Machinery and equipment	5 - 40 years
Infrastructure - streets and bridges	30 years
Land improvements	20 years
Downtown improvements	20 years

**17. Deferred Revenue**

Deferred revenue consists of amounts related to special assessments receivable in future periods. None of these amounts are deferred in the government-wide financial statements.

**18. Long-term Liabilities**

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**19. Comparative Data**

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH AND CASH EQUIVALENTS**

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash and cash equivalents in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.



## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

**Deposits**

As of June 30, 2006, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<b>PRIMARY GOVERNMENT</b>		
Checking and savings	\$ 4,192,056	\$ 3,819,168
Certificates of deposit	<u>1,150,000</u>	<u>1,150,000</u>
Total Primary Government	5,342,056	4,969,168
<b>FIDUCIARY FUNDS</b>		
Checking	2,593	7,741
<b>COMPONENT UNIT</b>		
Checking	<u>119,851</u>	<u>123,334</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 5,464,500</u>	<u>\$ 5,100,243</u>

The primary government cash and cash equivalents caption on the basic financial statements included \$893 of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2006, the City accounts were insured by the FDIC for \$765,416 and the amount of \$4,334,827 was uninsured and uncollateralized.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**Investments

As of June 30, 2006, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized Pooled Investment Government Op MM Fund	\$ <u>38,915</u>	\$ <u>38,915</u>	28 days

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the City's investment in the uncategorized pooled investment was rated Aaa by Moody's.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

Limiting investments to the types of securities listed in the "Authorized Investments" section; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with the "Authorized Institutions" section; and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2006:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,834,910	\$ 97,107	\$ 2,593	\$ 4,934,610
Cash and cash equivalents - restricted	<u>546,954</u>	<u>22,744</u>	<u>-</u>	<u>569,698</u>
	<u>\$ 5,381,864</u>	<u>\$ 119,851</u>	<u>\$ 2,593</u>	<u>\$ 5,504,308</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED**

The following summarizes the restricted cash and cash equivalents as of June 30, 2006:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Other</u>	<u>Total</u>
Enterprise Funds	\$ 170,092	\$ 266,075	\$ 110,787	\$ 546,954
Component Unit Fund	-	22,744	-	22,744
	<u>\$ 170,092</u>	<u>\$ 288,819</u>	<u>\$ 110,787</u>	<u>\$ 569,698</u>

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2006, are as follows:

Due to General Fund from:	
City Income Tax Fund	\$ 13,378
Local Street Fund	<u>3,828</u>
	<u>\$ 17,206</u>
Due to Local Street Fund from:	
City Income Tax Fund	\$ 75,149
Nonmajor governmental funds	<u>14,124</u>
	<u>\$ 89,273</u>
Due to nonmajor governmental funds from:	
City Income Tax Fund	<u>\$ 23,437</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and the component unit have been eliminated.

Transfers to General Fund from:	
Electric Light and Power System Fund	\$ 36,020
Sewage Disposal System Fund	24,720
Water System Fund	<u>24,720</u>
	<u>\$ 85,460</u>
Transfer to Local Streets Fund from:	
City Income Tax Fund	<u>\$ 370,000</u>
Transfer to Electric Light and Power System Fund from:	
Nonmajor governmental funds	<u>\$ 44,979</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE E: INTERFUND TRANSFERS - CONTINUED**

Transfer to nonmajor governmental funds from:

General Fund	\$ 59,979
City Income Tax Fund	4,119
Water System Fund	<u>2,500</u>
	<u>\$ 66,598</u>

**NOTE F: ADVANCES RECEIVABLE AND PAYABLE**

The following schedule details primary government advances at June 30, 2006:

Advance to General Fund from:	
Internal Service Fund	<u>\$ 32,000</u>

The advance was used to finance operations.

**NOTE G: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

**Primary Government**

	Restated Balance <u>July 1, 2005</u>	Additions/ <u>Reclassifications</u>	Deletions/ <u>Reclassifications</u>	Balance <u>June 30, 2006</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 1,075,920	\$ -	\$ -	\$ 1,075,920
Construction in Progress	<u>359,781</u>	<u>504,601</u>	<u>( 643,993 )</u>	<u>220,389</u>
	1,435,701	504,601	( 643,993 )	1,296,309
Capital assets, being depreciated				
Buildings and additions	371,721	28,000	-	399,721
Equipment and furniture	1,522,473	70,081	-	1,592,554
Infrastructure - streets and bridges	<u>11,471,345</u>	<u>708,742</u>	<u>-</u>	<u>12,180,087</u>
Subtotal	13,365,539	806,823	-0-	14,172,362
Less accumulated depreciation for:				
Buildings and additions	( 71,881 )	( 12,841 )	-	( 84,722 )
Equipment and furniture	( 797,635 )	( 137,624 )	-	( 935,259 )
Infrastructure - streets and bridges	<u>( 3,078,454 )</u>	<u>( 431,914 )</u>	<u>-</u>	<u>( 3,510,368 )</u>
Subtotal	<u>( 3,947,970 )</u>	<u>( 582,379 )</u>	<u>-0-</u>	<u>( 4,530,349 )</u>
Net capital assets being depreciated	<u>9,417,569</u>	<u>224,444</u>	<u>-0-</u>	<u>9,642,013</u>
Capital assets, net	<u>\$ 10,853,270</u>	<u>\$ 729,045</u>	<u>\$( 643,993 )</u>	<u>\$ 10,938,322</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE G: CAPITAL ASSETS - CONTINUED**

Depreciation expense was charged to the following governmental activities:

General government	\$ 166,463
Public safety	152,001
Public works	179,555
Health and welfare	43,385
Recreation and cultural	38,565
Community & economic development	<u>2,410</u>

Total depreciation expense \$ 582,379

	Balance July 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2006
<b>Business-type activities</b>				
<b>(Electric Light and Power System)</b>				
Capital assets, not being depreciated				
Land	\$ 13,800	\$ 208,391	\$ -	\$ 222,191
Capital assets, being depreciated				
Buildings	2,119,499	362,362	-	2,481,861
Transmission and disbursement	4,586,737	494,097	-	5,080,834
Equipment	<u>168,846</u>	<u>-</u>	<u>-</u>	<u>168,846</u>
Subtotal	6,875,082	856,459	-0-	7,731,541
Less accumulated depreciation for				
Buildings	( 450,032 )	( 50,255 )	-	( 500,287 )
Transmission and disbursement	( 1,312,228 )	( 145,642 )	-	( 1,457,870 )
Equipment	<u>( 20,780 )</u>	<u>( 9,746 )</u>	<u>-</u>	<u>( 30,526 )</u>
Subtotal	<u>( 1,783,040 )</u>	<u>( 205,643 )</u>	<u>-0-</u>	<u>( 1,988,683 )</u>
Net capital assets, being depreciated	<u>5,092,042</u>	<u>650,816</u>	<u>-0-</u>	<u>5,742,858</u>
Capital assets, net	<u>\$ 5,105,842</u>	<u>\$ 859,207</u>	<u>\$ -0-</u>	<u>\$ 5,965,049</u>
<b>Business-type activities</b>				
<b>(Sewage Disposal System)</b>				
Capital assets, not being depreciated				
Land	\$ 11,003	\$ -	\$ -	\$ 11,003
Construction in progress	<u>170,620</u>	<u>823,249</u>	<u>( 129,300 )</u>	<u>864,569</u>
Subtotal	181,623	823,249	( 129,300 )	875,572
Capital assets, being depreciated				
Buildings	605,399	-	-	605,399
Sewage Disposal System	1,203,633	129,300	-	1,332,933
Equipment	<u>43,453</u>	<u>-</u>	<u>-</u>	<u>43,453</u>
Subtotal	1,852,485	129,300	-0-	1,981,785

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE G: CAPITAL ASSETS - CONTINUED**

	<u>Balance July 1, 2005</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2006</u>
<b>Business-type activities</b>				
<b>(Sewage Disposal System) - continued</b>				
Less accumulated depreciation for				
Buildings	\$( 479,113 )	\$( 15,810 )	\$ -	\$( 494,923 )
Sewage Disposal System	( 394,008 )	( 42,330 )	-	( 436,338 )
Equipment	( 7,790 )	( 2,292 )	-	( 10,082 )
Subtotal	( 880,911 )	( 60,432 )	-0-	( 941,343 )
Net capital assets, being depreciated	<u>971,574</u>	<u>68,868</u>	<u>-0-</u>	<u>1,040,442</u>
Capital assets, net	<u>\$ 1,153,197</u>	<u>\$ 892,117</u>	<u>\$( 129,300 )</u>	<u>\$ 1,916,014</u>
<b>Business-type activities</b>				
<b>(Water System)</b>				
Capital assets, not being depreciated				
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Construction in progress	<u>87,591</u>	<u>662,780</u>	<u>( 78,849 )</u>	<u>671,522</u>
Subtotal	91,091	662,780	( 78,849 )	675,022
Capital assets, being depreciated				
Water System	3,880,177	78,849	-	3,959,026
Equipment	<u>41,272</u>	<u>-</u>	<u>-</u>	<u>41,272</u>
Subtotal	3,921,449	78,849	-0-	4,000,298
Less accumulated depreciation for				
Water System	( 914,018 )	( 83,733 )	-	( 997,751 )
Equipment	( 19,120 )	( 1,949 )	-	( 21,069 )
Subtotal	( 933,138 )	( 85,682 )	-0-	( 1,018,820 )
Net capital assets, being depreciated	<u>2,988,311</u>	<u>( 6,833 )</u>	<u>-0-</u>	<u>2,981,478</u>
Capital assets, net	<u>\$ 3,079,402</u>	<u>\$ 655,947</u>	<u>\$( 78,849 )</u>	<u>\$ 3,656,500</u>
<b>Component Unit</b>				
<b>(DDA)</b>				
Capital assets, not being depreciated				
Construction in progress	\$ 335,965	\$ 9,323	\$( 315,472 )	\$ 29,816
Capital assets, being depreciated				
Downtown improvements	155,316	315,472	-	470,788
City Hall building	<u>2,601,000</u>	<u>-</u>	<u>-</u>	<u>2,601,000</u>
Subtotal	2,756,316	315,472	-0-	3,071,788

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE G: CAPITAL ASSETS - CONTINUED**

Component Unit (DDA) - continued	Balance July 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2006
Less accumulated depreciation for				
Downtown improvements	\$( 13,901 )	\$( 23,540 )	\$ -	\$( 37,441 )
City Hall building	( 260,100 )	( 130,050 )	-	( 390,150 )
Subtotal	( 274,001 )	( 153,590 )	-0-	( 427,591 )
Net capital assets being depreciated	2,482,315	161,882	-0-	2,644,197
Capital assets, net	\$ 2,818,280	\$ 171,205	\$( 315,472 )	\$ 2,674,013

**NOTE H: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2006.

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
Governmental activities					
Special Assessment Limited					
Tax Bonds Payable	\$ 65,000	\$ -	\$ 5,000	\$ 60,000	\$ 5,000
Capital Leases Payable	24,829	-	16,029	8,800	8,800
Notes Payable	49,612	-	32,659	16,953	16,953
Accumulated Compensated Absences	59,020	-	4,396	54,624	10,925
	198,461	-0-	58,084	140,377	41,678
Business type activities					
Electric Light and Power System					
1994 Revenue Bonds	500,000	-	100,000	400,000	100,000
2002 Note Payable	95,000	-	60,000	35,000	35,000
Sewage Disposal System					
1995 Revenue Bonds	205,000	-	15,000	190,000	15,000
Water System					
2004 Water System Bonds	1,344,872	-	55,000	1,289,872	55,000
	2,144,872	-0-	230,000	1,914,872	205,000
<b>TOTAL PRIMARY GOVERNMENT</b>	2,343,333	-0-	288,084	2,055,249	246,678
<b>COMPONENT UNIT FUND</b>					
Downtown Development Authority					
General Obligation Bonds	1,895,000	-	125,000	1,770,000	130,000
	\$ 4,238,333	\$ -0-	\$ 413,084	\$ 3,825,249	\$ 376,678

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE H: LONG-TERM DEBT - CONTINUED**

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**PRIMARY GOVERNMENT**Special Assessment Limited Tax Bonds Payable (payable from Debt Service Fund)

The City issued Special Assessment Limited Tax Bonds for purposes of defraying the cost of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on these bonds are to be paid out of special assessments to be made against the benefited properties. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding this bond issue.

\$120,000 Special Assessment Limited Tax Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$5,000 to \$15,000 through December 1, 2014, with interest ranging from 5.60 to 6.25 percent, payable semi-annually.

\$ 60,000

Capital Leases (payable from General Fund)

The City has entered into a lease purchase agreement to finance the acquisition of a mailer machine. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$7,276. The lease is due in monthly installments of \$178, including interest at 16.30 percent, through October 29, 2006.

\$ 689

The City has entered into a lease purchase agreement to finance the acquisition of audio/visual equipment. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$119,927, \$60,000 of which was financed. The lease is due in monthly installments of \$1,181, including interest at 6.75 percent, through April 25, 2007.

8,111

\$ 8,800

Notes Payable (payable from Internal Service Fund)

\$200,000 Note payable, dated September 15, 1999, due in semi-annual installments of \$17,495 through September 15, 2006, including interest at 5.57 percent for a fire truck costing \$208,159, issued in accordance with Public Act 99 of 1933.

\$ 16,953

Electric Light and Power System Revenue Bonds

The City issued Electric Revenue Bonds for purposes of financing improvements and acquisition and installation of equipment related to the Electric Light and Power System. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the utility system.

The following summarizes the significant details regarding this bond issues:

\$600,000 Electric Revenue Bonds Series 1994 dated December 1, 1994, due in annual installments of \$100,000 through August 1, 2009, with interest ranging from 6.70 to 7.00 percent, payable semi-annually.

\$ 400,000



City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE H: LONG-TERM DEBT - CONTINUED**

Electric Light and Power System Note Payable Agreement

\$300,000 Note Payable, dated February 22, 2002, due in monthly installments of \$5,000 through February 2007, with no interest due. \$ 35,000

Sewage Disposal System Revenue Bonds

The City issued Wastewater Revenue Bonds for purposes of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the sewage disposal system.

The following summarizes the significant details regarding this bond issue:

\$300,000 Wastewater Revenue Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$15,000 to \$30,000 through December 1, 2014, with interest ranging from 5.80 to 6.35 percent, payable semi-annually. \$ 190,000

Water System Bonds

\$1,344,872 Water System Bonds dated September 15, 2003, due in annual installments ranging from \$55,000 to \$85,000 through October 1, 2024, with interest of 2.50 percent, payable semi-annually. \$ 1,289,872

**COMPONENT UNIT - DISCRETELY PRESENTED**

General Obligation Bonds

The City of Portland Downtown Development Authority (a component unit) issued Limited Tax General Obligation Downtown Development Bonds for purposes of financing construction and improvements outlined in the Downtown Development and Financing Plan along with the construction of a new City Hall. The principal and interest requirements on these bonds are to be paid from the portion of property tax levies related to the Downtown Development Authority districts. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding these bond issues:

\$275,000 Limited Tax General Obligation Downtown Development Bond dated October 1, 1994, due in annual installments of \$30,000 through June 1, 2008, with interest ranging from 6.35 to 6.40 percent, payable semi-annually. \$ 60,000

\$995,000 Limited Tax General Obligation Downtown Development Bond dated June 1, 2001, due in annual installments ranging from \$50,000 to \$125,000 through October 1, 2016, with interest ranging from 4.10 to 5.00 percent, payable semi-annually. 875,000

\$1,005,000 Limited Tax General Obligation Downtown Development Bonds dated August 22, 2001, due in annual installments ranging from \$50,000 to \$100,000 through October 1, 2016, with interest of 4.75 percent, payable semi-annually. 835,000

\$ 1,770,000

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE H: LONG-TERM DEBT - CONTINUED**

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$118,851 at June 30, 2006. Of this amount, \$12,915, \$6,680, \$39,196, and \$5,436 are shown as accrued liabilities within the General, Special Revenue, Enterprise, and Internal Service Funds, respectively, in accordance with criteria disclosed in Note A.

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Notes are as follows:

**Primary Government**

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Water System Bonds</u>		<u>Special Assessment Limited Tax Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 115,000	\$ 35,348	\$ 55,000	\$ 31,559	\$ 5,000	\$ 3,480
2008	115,000	27,720	55,000	30,184	5,000	3,198
2009	120,000	19,828	55,000	28,809	5,000	2,910
2010	120,000	11,668	60,000	27,372	5,000	2,618
2011	20,000	6,938	60,000	25,872	5,000	2,320
2012-2016	100,000	12,671	320,000	106,234	35,000	5,445
2017-2021	-	-	365,000	57,042	-	-
2022-2025	-	-	319,872	15,864	-	-
	<u>\$ 590,000</u>	<u>\$ 114,173</u>	<u>\$ 1,289,872</u>	<u>\$ 322,936</u>	<u>\$ 60,000</u>	<u>\$ 19,971</u>

Year Ending June 30,	<u>Notes Payable</u>		<u>Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 51,953	\$ 484	\$ 8,800	\$ 288

**Component Unit**

Year Ending June 30,	<u>General Obligation Downtown Development Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 130,000	\$ 82,210
2008	135,000	75,752
2009	110,000	68,976
2010	145,000	63,163
2011	150,000	56,382
2012-2016	875,000	169,134
2017-2021	225,000	5,500
	<u>\$1,770,000</u>	<u>\$ 521,117</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE I: RETIREMENT PLAN**Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended June 30, 2006, the City's annual pension cost of \$258,171 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 5,899,108	\$ 6,105,726	\$ 6,315,911
Actuarial accrued liability (AAL) (entry age)	7,808,293	8,159,192	8,555,564
Unfunded AAL	1,909,185	2,053,466	2,239,653
Funded ratio	76 %	75 %	74 %
Covered payroll	1,529,881	1,523,592	1,643,263
UAAL as a percentage of covered payroll	125 %	135 %	136 %

	Year Ended June 30,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 220,277	\$ 248,762	\$ 258,171
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE J: DEFERRED COMPENSATION PLAN**

The City of Portland offers its employees a deferred compensation plan sponsored by the ICMA Retirement Corporation, which is a compensation plan created in accordance with IRC Section #457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The City's deferred compensation program is administered by the ICMA Retirement Corporation.

Legislative change has been made to 457 plans which mandates that by no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, or annuity contract for the benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employers creditors nor can they be used by the public employer for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. The ICMA Retirement Corporation elected to implement compliance with the new requirement effective January 1, 1998. The plan assets previously maintained in an Agency Fund are no longer reported by the City because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

**NOTE K: CODE ENFORCEMENT FINANCIAL INFORMATION**

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2006:

REVENUES	
Licenses and permits	
Permits	\$ 507
EXPENDITURES	
Salaries and wages	68,083
Fringe benefits	19,557
Contractual services	14,395
Supplies	1,001
Printing	365
Vehicle rental	36
Other	<u>677</u>
TOTAL EXPENDITURES	<u>104,114</u>
EXCESS OF REVENUES	
(UNDER) EXPENDITURES	<u>\$( 103,607 )</u>

**NOTE L: RISK MANAGEMENT**

The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE L: RISK MANAGEMENT - CONTINUED**

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

**NOTE M: FUND EQUITY RESERVES AND DESIGNATIONS**

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the City has set aside for specific purposes.

The following are the various fund balance and net asset reserves as of June 30, 2006:

Fund Balances

Primary Government	
Nonmajor governmental funds	
Reserved for debt service	\$ 21,189
Reserved for perpetual care	<u>134,358</u>
Total primary government	<u>\$ 155,547</u>
Component Unit Funds	
Downtown Development Authority	
Reserved for debt service	<u>\$ 22,744</u>

The amount of \$22,744 represents the reserved amount of fund balance that the Authority has set aside for debt service in accordance with the requirements of bond resolutions.

Net Assets

Enterprise Funds	
Electric Light and Power System	
Utility reserve	<u>\$ 70,000</u>

Section 12.9 of the City Charter created an electric utility reserve fund for the purpose of accumulating and holding such money which, in addition to insurance carried by the City, may be deemed by the Board of Light and Power to be prudently necessary for the protection, improvement, replacement, and extension of the City electric public utility plants and facilities.

Monies expended from the utility reserve fund must be replaced from the revenues of the City electric utility, and the amount in the fund must total the sum required by the charter (i.e., 10% of the undepreciated original cost of the electric utility of the City) before any electric utility revenues can be appropriated for other capital expenditures of the City.

The following is a fund balance designation as of June 30, 2006:

General Fund	
Designated for capital projects	<u>\$ 300,000</u>

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE N: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2006:

<b>PRIMARY GOVERNMENT</b>	
Governmental Activities	
Debt Service	\$ <u>20,510</u>
Capital improvement	
MDEQ Wellhead Protection Grant	\$ <u>5,405</u>
Other Purposes	
City Income Tax	\$ 516,422
Major Street	94,288
Local Street	91,903
Cemetery Perpetual Care	<u>134,358</u>
	\$ <u>836,971</u>
Business-type Activities	
Restricted for utilities	
Electric Light and Power	\$ <u>70,000</u>
Restricted for debt service	
Electric Light and Power	\$ 153,592
Sewer System	<u>37,937</u>
	\$ <u>191,529</u>

**NOTE O: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance or net assets, respectively. The effect on operations and other affected balances for the current and prior year are as follows:

	June 30,		
	<u>2006</u>	<u>2005</u>	<u>Description</u>
General Fund			
Due from other funds	\$ -	\$( 40,403 )	To correct overstated
Revenues over (under) expenditures	-	( 40,403 )	due from other funds
Fund balance - beginning	( 40,403 )	-	
Water System			
Inventory	-	32,061	To correct understated
Changes in net assets	-	32,061	inventory
Net assets - beginning	32,061	-	

**NOTE P: RESTATEMENT OF NET ASSETS**

The City has opted to include various infrastructure projects and has retroactively adjusted capital asset balances net of accumulated depreciation as permitted by GASB Statement No. 34. The restated beginning net assets also reflect corrections of overstated receivable balances for the governmental activities.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE P: RESTATEMENT OF NET ASSETS - CONTINUED**

Governmental activities net assets as of June 30, 2005	\$ 9,965,244
Overstated receivables	( 68,283 )
Capital assets, net	<u>2,433,205</u>
Restated governmental activities net assets as of June 30, 2005	<u>\$12,330,166</u>

**NOTE Q: POST-RETIREMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2006, those costs totaled \$20,962.

**UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The pronouncement is effective for the year ending June 30, 2009.

**NOTE R: RELIANCE ON FUNDING SOURCES**

**Downtown Development Authority (Component Unit)**

As a result of constitutional and statutory amendments related to school financing, the City of Portland Downtown Development Authority (Component Unit) is not able to capture as much tax increment revenue related to school property taxes as in the past. Also, the amount of school property taxes available to be captured has dramatically decreased.

The amount that can now be captured depends on whether the Authority has met certain criteria. The City of Portland Downtown Development Authority appears to have met the required criteria which will allow the Authority to capture school property taxes in an amount up to either the annual debt service requirements for both DDA general obligation debt issues or the non-school property taxes captured, whichever is less.

**NOTE S: CONTRACTUAL COMMITMENTS**

The City has entered into a contract for an Elevated Pedestrian Walk. The amount of the contractual commitment outstanding as of June 30, 2006 is \$792,926 for which the City will use fund balance and grant proceeds to cover this commitment.

## **REQUIRED SUPPLEMENTARY INFORMATION**



## City of Portland

## General Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 915,000	\$ 915,000	\$ 906,947	\$ (8,053)
Penalties and interest	2,500	2,500	7,119	4,619
Tax collection	32,700	32,700	37,796	5,096
Total taxes	950,200	950,200	951,862	1,662
Licenses and permits				
Cable television license	21,000	21,000	16,887	(4,113)
City licenses and permits	3,750	3,750	507	(3,243)
Total licenses and permits	24,750	24,750	17,394	(7,356)
Intergovernmental				
State				
Sales tax	457,733	457,733	450,576	(7,157)
Act 302 training funds	1,300	1,300	1,406	106
State liquor license	2,700	2,700	2,803	103
Total intergovernmental	461,733	461,733	454,785	(6,948)
Charges for services				
Fire protection - townships	114,000	114,000	177,596	63,596
Cemetery fees and lot sales	21,000	21,000	25,980	4,980
Administrative charges	295,584	295,584	296,040	456
Other fees	3,450	3,450	13,072	9,622
Total charges for services	434,034	434,034	512,688	78,654
Fines and forfeits				
Parking	1,500	1,500	1,614	114
District court	13,500	13,500	13,272	(228)
Other	2,500	2,500	4,018	1,518
Total fines and forfeits	17,500	17,500	18,904	1,404
Interest and rents	19,700	19,700	57,020	37,320
Other				
Donations	7,250	7,250	8,111	861
Reimbursements	90,285	90,285	130,827	40,542
Total other	97,535	97,535	138,938	41,403
TOTAL REVENUES	2,005,452	2,005,452	2,151,591	146,139

## City of Portland

## General Fund

## BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Council, boards, and commissions	\$ 10,304	\$ 10,304	\$ 4,673	\$ 5,631
Community promotions	155,140	130,140	96,952	33,188
City manager	127,915	127,915	115,322	12,593
Assessing services	54,132	54,132	45,400	8,732
Elections	8,725	8,725	2,793	5,932
City hall and grounds	68,155	68,155	59,018	9,137
General administrative	365,145	373,145	339,111	34,034
Cemetery operations	135,801	135,801	104,589	31,212
Total general government	925,317	908,317	767,858	140,459
Public safety				
Police department	654,090	654,090	619,516	34,574
Fire department	219,532	219,532	185,423	34,109
Code enforcement	112,212	115,212	104,114	11,098
Total public safety	985,834	988,834	909,053	79,781
Public works				
Street lighting	45,500	45,500	41,793	3,707
Health and welfare				
Ambulance service	105,000	105,000	101,899	3,101
Community and economic development				
Economic development	17,500	17,500	10,817	6,683
Recreation and cultural				
Parks department	186,328	186,328	154,815	31,513
TOTAL EXPENDITURES	2,265,479	2,251,479	1,986,235	265,244
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(260,027)	(246,027)	165,356	411,383

## City of Portland

## General Fund

## BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers in				
Electric Light and Power System Fund	\$ 36,020	\$ 36,020	\$ 36,020	\$ -0-
Sewage Disposal System Fund	24,720	24,720	24,720	-0-
Water System Fund	24,720	24,720	24,720	-0-
Transfers out				
Arts and Cultural Improvement Fund	-	(15,000)	(14,979)	21
Boardwalk Project Fund	-	(25,000)	(25,000)	-0-
Recreation Fund	(20,000)	(20,000)	(20,000)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	65,460	25,460	25,481	21
NET CHANGE IN FUND BALANCE	(194,567)	(220,567)	190,837	411,404
Fund balance, beginning of year	465,939	465,939	465,939	-0-
Prior period adjustment	-	-	(40,403)	(40,403)
Fund balance, end of year	\$ 271,372	\$ 245,372	\$ 616,373	\$ 371,001

City of Portland  
City Income Tax Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 700,000	\$ 700,000	\$ 686,135	\$ (13,865)
Fines and forfeits	10,000	10,000	23,004	13,004
Interest	7,000	7,000	11,617	4,617
Other				
Special assessments	5,620	5,620	14,858	9,238
Other	-	-	94	94
TOTAL REVENUES	722,620	722,620	735,708	13,088
EXPENDITURES				
General government	151,293	151,293	138,411	12,882
EXCESS OF REVENUES OVER EXPENDITURES	571,327	571,327	597,297	25,970
OTHER FINANCING (USES)				
Transfers out	(527,000)	(374,150)	(374,119)	31
NET CHANGE IN FUND BALANCE	44,327	197,177	223,178	26,001
Fund balance, beginning of year	293,244	293,244	293,244	-0-
Fund balance, end of year	<u>\$ 337,571</u>	<u>\$ 490,421</u>	<u>\$ 516,422</u>	<u>\$ 26,001</u>

## City of Portland

## Local Street Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 71,150	\$ 71,150	\$ 71,484	\$ 334
Intergovernmental - State				
Gas and weight tax	70,000	70,000	72,916	2,916
METRO Act	9,183	9,183	7,599	(1,584)
Interest	1,500	1,500	2,619	1,119
Other	758,250	758,250	2,320	(755,930)
TOTAL REVENUES	910,083	910,083	156,938	(753,145)
EXPENDITURES				
Public works				
Administrative	53,188	53,188	58,358	(5,170)
Construction	825,140	825,140	414,152	410,988
Maintenance	139,133	139,133	109,884	29,249
TOTAL EXPENDITURES	1,017,461	1,017,461	582,394	435,067
EXCESS OF REVENUES (UNDER) EXPENDITURES	(107,378)	(107,378)	(425,456)	(318,078)
OTHER FINANCING SOURCES				
Transfers in	200,000	370,000	370,000	-0-
NET CHANGE IN FUND BALANCE	92,622	262,622	(55,456)	(318,078)
Fund balance, beginning of year	147,359	147,359	147,359	-0-
Fund balance, end of year	\$ 239,981	\$ 409,981	\$ 91,903	\$ (318,078)

## **OTHER SUPPLEMENTARY INFORMATION**

City of Portland  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET  
June 30, 2006

	Special Revenue Funds			
	Major Street	Recreation	Portland Area Ambulance	Downtown Rehabilitation
<b>ASSETS</b>				
Cash and cash equivalents	\$ 194,368	\$ 38,252	\$ 65,700	\$ -
Accounts receivable	33,516	-	5,372	-
Due from other governmental units	-	-	25,300	-
Special assessments receivable	-	-	-	-
Due from other funds	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 227,884</b>	<b>\$ 38,252</b>	<b>\$ 96,372</b>	<b>\$ -0-</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 127,542	\$ 3,779	\$ 30,493	\$ -
Accrued liabilities	6,054	4,650	10,336	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>133,596</b>	<b>8,429</b>	<b>40,829</b>	<b>-0-</b>
<b>FUND BALANCES</b>				
Reserved for				
Perpetual care	-	-	-	-
Debt service	-	-	-	-
Unreserved				
Undesignated, reported in:				
Special Revenue Funds	94,288	29,823	55,543	-
Capital Project Funds	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>94,288</b>	<b>29,823</b>	<b>55,543</b>	<b>-0-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 227,884</b>	<b>\$ 38,252</b>	<b>\$ 96,372</b>	<b>\$ -0-</b>

Debt Service Fund	Capital Project Funds			Permanent Fund	Total Nonmajor Governmental Funds
Special Assessments	MDEQ Wellhead Protection Grant	Arts and Cultural Improvement	Boardwalk Project	Cemetery Perpetual Care	
\$ 11,876	\$ 5,405	\$ -	\$ 25,675	\$ 133,907	\$ 475,183
-	-	-	-	451	39,339
-	-	-	100,000	-	125,300
17,151	-	-	-	-	17,151
23,437	-	-	-	-	23,437
<u>\$ 52,464</u>	<u>\$ 5,405</u>	<u>\$ -0-</u>	<u>\$ 125,675</u>	<u>\$ 134,358</u>	<u>\$ 680,410</u>
\$ -	\$ -	\$ -	\$ 18,290	\$ -	\$ 180,104
-	-	-	-	-	21,040
17,151	-	-	-	-	17,151
14,124	-	-	-	-	14,124
31,275	-0-	-0-	18,290	-0-	232,419
-	-	-	-	134,358	134,358
21,189	-	-	-	-	21,189
-	-	-	-	-	179,654
-	5,405	-	107,385	-	112,790
21,189	5,405	-0-	107,385	134,358	447,991
<u>\$ 52,464</u>	<u>\$ 5,405</u>	<u>\$ -0-</u>	<u>\$ 125,675</u>	<u>\$ 134,358</u>	<u>\$ 680,410</u>



City of Portland

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special Revenue Funds			
	Major Street	Recreation	Portland Area Ambulance	Downtown Rehabilitation
REVENUES				
Intergovernmental	\$ 216,530	\$ 17,750	\$ -	\$ 14,568
Charges for services	-	89,962	362,792	-
Interest and rents	6,851	48	-	-
Other	2,677	6,540	1,460	-
TOTAL REVENUES	226,058	114,300	364,252	14,568
EXPENDITURES				
Current				
Public works	355,593	-	-	-
Health and welfare	-	-	330,970	-
Community and economic development	-	-	-	41,278
Recreation and cultural	-	131,236	-	-
Capital outlay	-	382	-	-
Debt service	-	-	-	-
TOTAL EXPENDITURES	355,593	131,618	330,970	41,278
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(129,535)	(17,318)	33,282	(26,710)
OTHER FINANCING SOURCES (USES)				
Transfers in	4,119	20,000	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	4,119	20,000	-0-	-0-
NET CHANGE IN FUND BALANCES	(125,416)	2,682	33,282	(26,710)
Fund balances, beginning of year	219,704	27,141	22,261	26,710
Fund balances, end of year	\$ 94,288	\$ 29,823	\$ 55,543	\$ -0-

Debt Service Fund	Capital Project Funds			Permanent Fund	Total Nonmajor Governmental Funds
Special Assessments	MDEQ Wellhead Protection Grant	Arts and Cultural Improvement	Boardwalk Project	Cemetery Perpetual Care	
\$ -	\$ 2,221	\$ 30,000	\$ 137,220	\$ -	\$ 418,289
-	-	-	-	-	452,754
1,075	-	-	-	451	8,425
1,400	-	-	-	5,913	17,990
2,475	2,221	30,000	137,220	6,364	897,458
-	-	-	-	-	355,593
-	-	-	-	-	330,970
-	-	-	-	-	41,278
-	-	-	-	-	131,236
-	3,509	-	54,835	-	58,726
8,882	-	-	-	-	8,882
8,882	3,509	-0-	54,835	-0-	926,685
(6,407)	(1,288)	30,000	82,385	6,364	(29,227)
-	2,500	14,979	25,000	-	66,598
-	-	(44,979)	-	-	(44,979)
-0-	2,500	(30,000)	25,000	-0-	21,619
(6,407)	1,212	-0-	107,385	6,364	(7,608)
27,596	4,193	-	-	127,994	455,599
<u>\$ 21,189</u>	<u>\$ 5,405</u>	<u>\$ -0-</u>	<u>\$ 107,385</u>	<u>\$ 134,358</u>	<u>\$ 447,991</u>

City of Portland

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2006

ASSETS

Cash	\$ 97,107
Cash - restricted	<u>22,744</u>

TOTAL ASSETS	<u>\$ 119,851</u>
--------------	-------------------

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to other governmental units	\$ 15,000
---------------------------------	-----------

FUND BALANCE

Reserved for debt service	22,744
Unreserved - undesignated	<u>82,107</u>

TOTAL FUND BALANCE	<u>104,851</u>
--------------------	----------------

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 119,851</u>
------------------------------------	-------------------

City of Portland

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2006

**Total fund balance - governmental fund** \$ 104,851

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 3,101,604	
Accumulated depreciation is	<u>(427,591)</u>	
Capital assets, net		2,674,013

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	20,471	
General obligation bonds	<u>1,770,000</u>	
		<u>(1,790,471)</u>

**Net assets of governmental activities** \$ 988,393

City of Portland

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2006

<b>REVENUES</b>	
Taxes	\$ 249,652
Interest	2,736
Other	<u>8,450</u>
<b>TOTAL REVENUES</b>	<b>260,838</b>
<b>EXPENDITURES</b>	
Current	
Community and economic development	48,458
Capital outlay	
Contracted services	50,630
Decorations and banners	9,000
Debt service	
Principal	125,000
Interest and fiscal charges	<u>89,273</u>
<b>TOTAL EXPENDITURES</b>	<b><u>322,361</u></b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(61,523)</b>
Fund balance, beginning of year	<u>166,374</u>
Fund balance, end of year	<u><u>\$ 104,851</u></u>

City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2006

**Net change in fund balance - governmental fund** \$ (61,523)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	9,323
Depreciation expense	<u>(153,590)</u>

Excess of depreciation expense over capital outlay	(144,267)
--	-----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements	125,000
----------------------------	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>1,348</u>
--------------------------------------	--------------

<b>Change in net assets of governmental activities</b>	<b><u>\$ (79,442)</u></b>
--	---------------------------

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council  
City of Portland  
Portland, Michigan

We have audited the financial statements of the City of Portland as of and for the year ended June 30, 2006, and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Portland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Portland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Mayor, and the City Council of the City of Portland, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 1, 2006